

Essentials of O&S Cost Estimation

DoD Cost Analysis Symposium

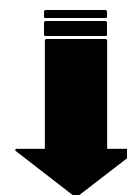
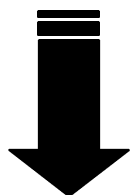
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3 February 1999

Fundamental Shift in How the Department Views Operating & Support Costs

- **Milestone Decisions for Acquisition Programs**

- Emphasis placed on Modernization
- Estimates represent Static Points in time
- Focus is on Affordability given Budget Constraints



- **Total Ownership of Cost (TOC) Initiatives**

- Emphasis placed on Fielded Systems
- Estimates represent Dynamic Baselines
- Focus is on How to Influence the Budget
- Establish Baseline and Implement Metrics

OSD/CAIG

Recent Changes to Consider

- **Transition from Organic Support to Contractor Logistics Support**
- **Focus on Commercial Management**
- **Emphasis on Price-Based Acquisition**
- **Activity Based Costing Initiatives**

Core Foundation for Cost Visibility

- **Visibility and Management of Operating & Support Costs (VAMOSC):** provides a “product oriented ” view of cost ~direct & some indirect costs of weapon systems.

- **Activity-Based Costing/Management (ABC/M):** provides a “functionally oriented” view of costs to enable better understanding of infrastructure and other indirect costs.

Considerations for an Operating & Support Cost Baseline

- **Measurement of Baseline**

- **Static Point**

- SAR (based on earlier MS decision)
 - CAIG O&S Estimate (also based on earlier MS decision)
 - VAMOSC (actual data but time lag)

- **Dynamic** (out year projections)

- Trend Line such as FYDP

- **Content of Baseline**

- **Direct versus Indirect Costs** (attribution versus allocation)

- **Structure of Baseline**

- **Army and Marines --> Force Structure**
 - **Navy and Air Force --> Weapon Systems**

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Congressional Direction

- **Congressional language of Section 816:**
 - Designate 10 acquisition programs as Pilot Programs on program manager responsibility of product support.
- **Congressional language of Section 912:**
 - Submit a plan to streamline the acquisition organizations, workforce, and infrastructure of the Department of Defense.

